MODERN DISTRIBUTION MANAGEMENT The Newsletter for the Wholesale Distribution Channel

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Changing Channels

Part 2: Conflicts blur line of sight to end-user

As reported in Part 1, tension between manufacturers and distributors has always been there – but the reasons for that tension have changed. Channel partners are navigating a new frontier that includes private-label branding, converging channels, pricing conflicts, the push of big-box retailers and national accounts into their back yards, and a changing customer base. In Part 2 of this article, we address best practices in manufacturer-distributor relationships.

By Lindsay Young

One answer to manufacturer-distributor conflicts, MDM found in interviews for this article, is that distributors must focus on creating value for the customer and the supplier by homing in on core competencies. And manufacturers must find a balance of trade between high-volume distributors, integrated suppliers, big-boxes and smaller independent and niche distributors.

With this comes a responsibility to supply each channel with what it needs – programs, pricing and product to maximize profitability and market share for distributor and manufacturer alike.

"Manufacturers have gotten a lot smarter. Distributors are also getting a lot smarter," says Michael Marks of Indian River Consulting Group. "But it doesn't necessarily mean smarter about working with each other. There are some very good examples where they have worked together. But there are probably more disasters."

Many manufacturers are trying to manage more complex channels the same as they did five to 10 years ago, perhaps blurring an otherwise clear line of sight to their distributors and end-users. "Manufacturers need to understand their customers' needs and make sure they get the product, service and support they expect and deserve," says Dan Perry, founder of D.R. Perry and Associates LLC and former president/CEO of Milwaukee Electric Tool Corporation.

Channel Needs

"Customers' buying habits have changed over the years. In order to reach all of their potential customers, many manufacturers are forced to sell through alternate channels," Perry says.

"The challenge facing major brand manufacturers today is dealing with the major differences in all of the channels they serve while continuing to offer programs and promotions that are fair and consistent in the marketplace. Accomplishing this is critical to achieving a good balance of trade.

"Manufacturers shouldn't intentionally overload distributors with one or two products where they need adequate breadth and depth in others to support the line." Channel loading, the practice of trying to push as much product to distributors with the hope they will be motivated to sell, is still choking relationships as well as margins.

Distributors need the right mix to get the proper turns and margins to make money on a particular line.

That is compounded as channels proliferate. There are specific and sometimes conflicting needs for retail channels, hardware and home centers, a hardware wholesaler, industrial channels and commercial/residential contracting channels.

Sharing Information

Some innovative manufacturers and distributors have found a way to get past the fear factor of sharing information on the end-user by embracing point-of-sale data collection when it benefits both parties.

It is part of a trend toward demand-

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driven channels – where products are "pulled down" to the end-user based on actual customer demand data. To facilitate this, distributors and manufacturers are automating warehouses to better track product, sharing point-of-sale and product movement data upstream, and automating orders from distributors to suppliers.

In one way, the transparency allows distributors to document and demonstrate they do add a lot of value to the supply chain, says Adam Fein of Pembroke Consulting.

Though point-of-sale is moving slowly into distribution channels, it has already caught on in retail channels. Hand tool supplier Channellock is leveraging information-sharing within the retail channel. "I think it will find its way into the industrial and professional/contracting side of our business in the near future," says Scott Jonap, vice president for sales and marketing for Channellock Inc., Meadville, PA.

Still, while sharing end-user information may indeed help to increase inventory accuracy and turns, benefiting manufacturers and distributors, many distributors are skeptical – or even cynical. "The problem is where suppliers abuse that privilege," says Mark Yoder, Channellock's national sales manager.

Point-of-sale can work with trusted partners, says Marshall Jones, president of Marco Supply, a 15-branch building materials distributor in the Southeast. "For example, we may look at who is buying chop saw blades but not chop saws, and work with the manufacturer to design a program to sell chop saws to those particular customers," Jones says. "That benefits both of us. Those are the types of things we can work together on. But there has to be a level of trust."

Distributors and manufacturers also have an opportunity to reduce costs in the channel. Greg Polli, vice president for product management at distributor MSC Industrial Direct Inc., says there are often dual inventories, as well as a lack of standardization with part numbers. "Also, how we buy needs to be examined," he says, "as well as the technologies we use, including bar coding and EDI.

"I think eventually the big guys will sit down and just say, 'let's do this.' More profit will be there if we improve efficiencies. Customers are going to demand it."

Brand Loyalty

Competition is escalating, not only for distributors but also manufacturers who face an ever-consolidating global market. "The quality of imported product is improving," Jonap says. In addition, more distributors have leveraged private label brands, creating more competition and complexity for the branded manufacturer looking for the best route to market.

To build brand, manufacturers will contact potential and current customers with the Internet, direct mail, promotions, show and tell and job-site visits. "The goal is to get that contractor to be a supporter of that brand instead of the distributor," Jones says.

Jones doesn't blame manufacturers who want to regain their brands' power by using

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direct rebates or handing out free tools to the end-user. "I don't fault them, but it does create tension," he says. "Everyone has it tough. It's a fine line and a balancing act."

Most of Channellock's end-user advertising is done through consumer publications, such as Sports Illustrated, Sporting News, Popular Mechanics and sports broadcasting such as ESPN Radio and CBS/Westwood One Radio; this creates brand awareness. Channellock walks that fine line. Jonap says distributors "need to understand that together we share the end-user. They are our ultimate customer. As good marketers we must court them. It is our marketing that creates the partnership."

Many distributors aren't happy with the "courting of the end-user," as one distributor put it. Still, there are ways to work with and reward distributors for their part in supporting a brand.

"Distributors should market themselves aggressively as a destination for the brands that matter to their customers and proactively tap into manufacturers' marketing initiatives," says Jeff Campbell, vice president of sales for Irwin and Lenox Industrial Tools, a manufacturer. Depending on the distributor model, this can be reinforced through joint sales calls, showroom merchandising, catalogs, monthly flyers, the Internet, traditional media, user events, inside/outside sales promotions and other vehicles.

Jones argues that manufacturers should create a list of "strategic customers," the distributors who do the heavy lifting for their brands. They support a wide breadth and stock it deep; when there is a new product launch, the "strategic customers" carry the flag. He says it is critical to treat the strategic customer "radically different" from an authorized distributor.

How? He says manufacturers should use price differentiation, extra rep support, and built-in protection from the distributors' direct competitors who aren't strategic customers. "The supplier has to shift from making purely short-term bottom-line financial decisions to asking, 'What is the best way to make my strategic customers want to do business with me?'"

MSC's Polli has another take.

"Where independent distributors are driving high customer value, they will not be hurt. Where they are not, they are in danger," Polli says. "While we understand and respect the loyalty factor, we do not see this as the responsibility of the manufacturer. This is an issue MSC faces on a regular basis.

"In fact, we see a higher share of the market going to national distributors, specialized distributors and integrated suppliers. We believe those channels have directed their efforts more toward end-user customer value as opposed to what works for manufacturers and/or distributors alone. These areas include cost reduction, service and procurement solutions, technical know-how and productivity gains."

In the Field

"Manufacturers can do a lot to avoid price wars, and other things that happen on a local level that cause channel conflict," Perry says. "The local sales representative can play a huge role in controlling the situation."

"First of all, they need to have the right mix of distributors in any given market. They've got to be knowledgeable about what they do. They've got to be properly trained, and train distributor salespeople to ensure that the right message reaches the customer. Done properly on a local level, manufacturer's sales representatives can offer different product mixes and promotions and avoid channel conflicts."

Polli of MSC agrees. "Overall we see field reps as extremely important because we believe that the business relationship is still a key driver of success. If not, we'd all just be directing customers to our Web sites," he says.

Campbell, who spent time as a salesman to distributors, also has strong feelings on the role reps play. He says they must take the time to identify which partners' objectives are in line with the company's objectives. Next, sales reps must get on the same page with the distributor from the highest level, including the owner. "They need to ask what their expectations are and what the rep can do to bring value to their business," he says.

Next, they should map out a strategic plan, sharing sales and profitability goals and including discussion on rebates, margins and turns.

"There is very little added value for either side if the sales rep's main activities revolve around writing orders," Campbell says. "High performing sales reps realize distributors have a lot going on and know the most important role is managing the customers' categories for them. This is how the sales rep becomes a trusted and valued part of a distributor family."

At the same time, Campbell realizes this isn't always easy, especially because of high rep turnover.

Adaptable Discount Models

Traditional volume discounting alone is too inflexible in today's channels, MDM found.

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Polli says manufacturers need to offer discounts based on the value distributors provides them. "Too often I've seen suppliers offering attractive discount levels to a distributor who are putting little investment/value into the manufacturers' brands at the end-user customer," Polli says. "Given the low value to the customer, they must price low to win the business. They are able to do this because their low investment means a low operating expense.

"This puts unnecessary pressure on the entire market. If manufacturers would consistently reward distributors for the true value they are driving to their customers, I believe price wars would be lessened and the supply chain would be more efficient for all."

Marks agrees: "Don't over-compensate your distributors to do a bunch of things the customers don't value. And don't under-compensate. Just get everything aligned so that people are doing what you want them to do, and there is a level of dialogue."

Functional discounts are gaining traction as a way to reward distributors for adding value to the supply chain. "Why do I want to pay the distributor to do something that isn't valued by me or my customer?" Marks asks. "It's this whole idea of unhooking something from the transaction size or volume."

Campbell notes that some professional end-users are migrating to big-box and national distributors. "We don't control the end-user," he says. In that vein, Irwin has a responsibility to offer its product where the professional wants to buy it, he says. Still, he and other manufacturers recognize the value of the independent distributor. "Without them we wouldn't be here," says Jonap of Channellock. "The independent distributor is important to our future." Campbell agrees.

"We support all of our 'partner customers' in all channels with sales and marketing support," Campbell says. "We also support independent distribution through our involvement and support of key trade associations and distribution groups."

The key is consistency, Jonap says. He says it's important that manufacturers communicate openly and create a level playing field for its distributors, regardless of size.

Communication Skills

In the end, a lot of the tension in distribution channels is there because of a failure to communicate.

"It doesn't make any difference whether you're a supplier looking for a distributor or a distributor looking for a manufacturer," says Marks. "There were messages sent by one party to the other that the other didn't hear. Those messages were sent over and over.

"The manufacturer says, 'Your growth rate isn't high enough.' And the distributor says, 'Well, your product quality and delivery are poor. And so our growth rate is really good considering how bad you are and so our complaint cancels out your complaint so we're going to ignore you.'" And the two never actually listen to each other.

Marks' response: Take action. Get together with the senior executive of your trading partner and ask quietly, "Have you been sending us messages that we are not hearing?" Just listen for 10 seconds, Marks says, and you'll see a dramatic change. Marks found in research that many times factory sales reps do hear the message, but no one listens.

"It's just across the board," he says. "It's messages sent that weren't heard."

Irwin's Campbell says electronic communication has in some instances deteriorated the quality of communication between channel partners. "I think it's taken away the personal touch," he says.

"It's very important to foster those personal relationships. If someone's not doing that, they are basically just scraping the cream off the top and not able to get down into the real opportunities with their partner. You can't accomplish that by just using electronic communication."

Jones recommends that a supplier's vice president of marketing and sales should create a distribution council – formal or informal – with a good mix of noncompeting distributors of different sizes, from different regions, and different loyalty levels. "Ask them what's working and what's not," he says.

"If they came to someone like me in my channel, and asked what types of programs would work, they would be able to center them around what we want or need as opposed to what we already have overstocked today. So many programs are cookie-cutter and not really what makes sense to a distributor. Many times distributors throw them out because they are not applicable."

Distributors and manufacturers should sit down, Jones says, and discuss their plans for the year, including core goals and important statistics. "It's a very small group of manufacturers and distributors who are having those dialogues, but those dialogues are how you create channel alignment," Marks says.

Industrial Improvement Forecasted

MAPI: Manufacturing in U.S. poised for growth

U.S. manufacturing is poised for continued growth as the year progresses, withstanding current challenges, according to the Manufacturers Alliance/MAPI Survey on the Business Outlook, a leading indicator for the industrial sector. The March 2007 composite index of 58 is up from 54 reported in the December 2006 survey and breaks a three-quarter slide of decreases.

A composite business index above 50 indicates that overall manufacturing activity is expected to increase over the next three months to six months. It should be noted, however, that the index measures the direction of change rather than the absolute strength of activity in manufacturing.

Six of the 10 factors measured by the quarterly survey were higher than the previous report, foreshadowing a likely improvement in the industrial sector and providing a measure of optimism in the midst of mixed economic indicators for this sector. There were decreases in three indexes and one remained flat.

The March 2007 outlook marks a healthy turnaround from the December 2006 report in which seven of the 10 indexes were lower than the September 2006 survey.

The survey results of this quarter are evidence of latent strength in most manufacturing industries and are a harbinger of renewed vigor in the latter half of the year, said Donald A. Norman, Ph.D., Manufacturers Alliance/MAPI Economist and survey coordinator. Most industries, with the exception of those businesses closely linked to the housing sector, should expand this year although the rate of expansion is likely to be less than in recent years.

The prospective shipments index, based on expectations of anticipated shipments in the second quarter of 2007 compared with the same quarter last year, showed the biggest gain, rising to 73 percent in March 2007 from 62 percent in the December 2006 survey. This marks the first increase in this forward-looking index since December 2005.

Capacity utilization, based on the percentage of firms operating above 85 percent of capacity, increased to 46.7 percent in March 2007 from 38.2 percent in December 2006 and remains well above its long-term average of 32.5 percent. Also showing a healthy gain was the investment index, which queries executives on their expectations regarding capital investment in 2007 compared to 2006. The index rose seven percentage points, to 71 percent, from 64 percent in the December 2006 survey.

The backlogs index compared the first quarter 2007 backlog of orders with the backlog of orders one year earlier. The March 2007 index of 60 percent represents a moderate improvement from 57 percent in the December 2006 survey, but more importantly starts to reverse a large 14 percentage point drop in the previous report. An accumulation of backlogs usually occurs when new orders exceed shipments.

The annual orders index, a forecast based on a comparison of expected orders for all of 2007 with orders in 2006, returned to 80 percent in March 2007 from 78 percent in the December 2006 survey.

The research and development (R&D) index determines how executives see R&D expenditures in 2007 compared with those of 2006. This index confirms the underlying strength in manufacturing, maintaining its robust 75 percent level in March 2007, just above the 74 percent recorded in December 2006. Meanwhile, the profit margin index was flat, remaining at 62 percent, the same as in the previous report.

Three other indexes encountered a slightly downward trend.

Most significantly, the quarterly orders index, which compares new orders for the first quarter of 2007 with the same quarter one year ago, fell six percentage points, to 60 percent in March 2007 from 66 percent in December 2006. The decline in this index underscores the current slowdown in manufacturing activity. The orders index was as high as 77 percent as recently as September 2006, but any level above 50 percent still indicates growth.

The exports orders index, which measures how first quarter 2007 orders are expected to compare with those of first quarter 2006, returned to 75 percent from 77 percent in the December 2006 survey. At 75 percent, the exports orders index remains at a relatively high level. The inventory index rose to 77 percent in March 2007 from 76 percent in December 2006, indicating inventories to be higher on a year-to-year basis.

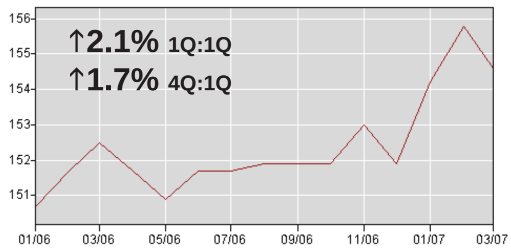
Inflation by Commodity Group

Product pricing trends for the first quarter 2007

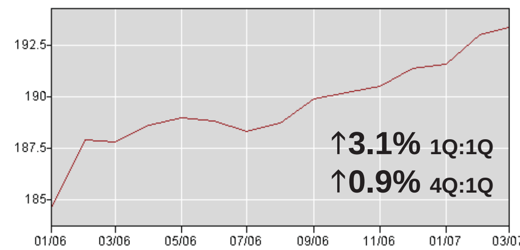
These 16 select product groups provide a snapshot of inflation trends. First quarter 2006 is compared with first quarter 2007, and the fourth quarter 2006 with the first quarter 2007.

Key
↑11.6% 1Q:1Q (1Q '06 with 1Q '07)
↑1.8% 4Q:1Q (4Q '06 with 1Q '07)

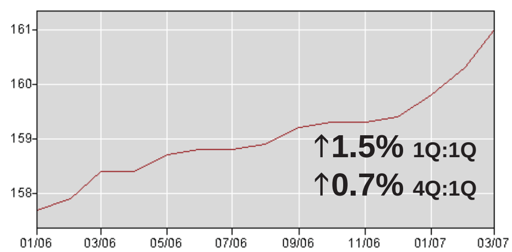
Abrasives



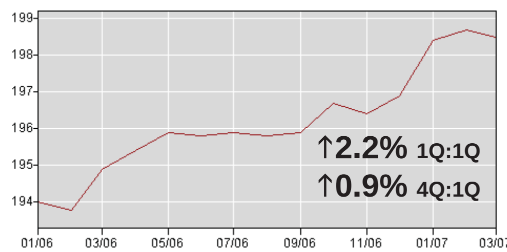
Adhesives & Sealants



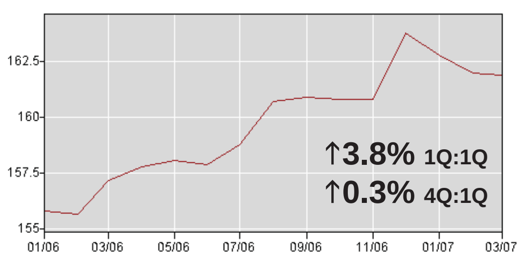
Cutting Tools & Accessories



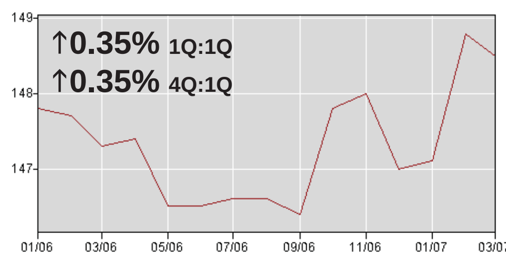
Hand & Edge Tools



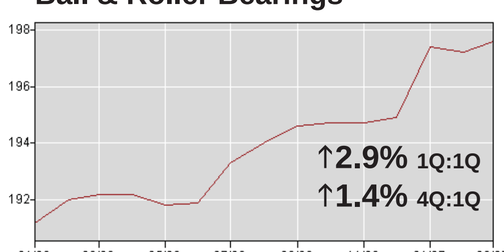
Fasteners



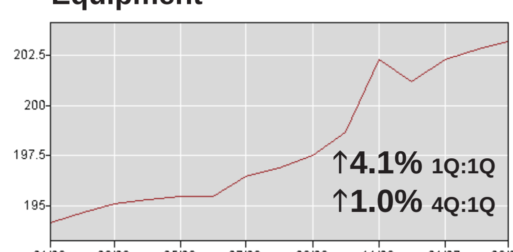
Power-Driven Hand Tools



Ball & Roller Bearings

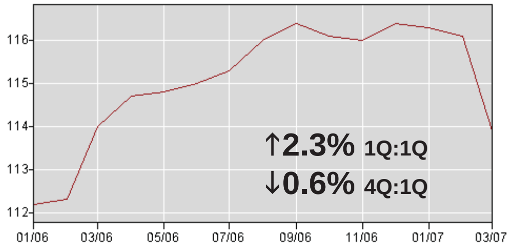


Mech. Power Transmission Equipment

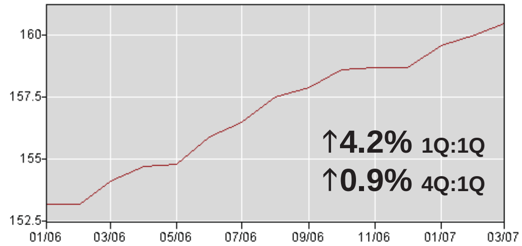


Source: Bureau of Labor Statistics; MDM analysis

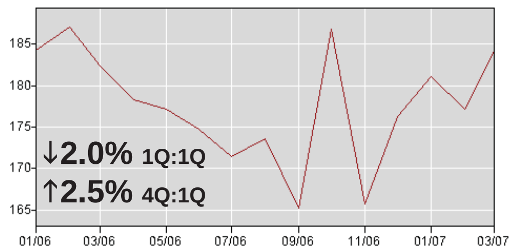
Electrical Machinery/Equipment



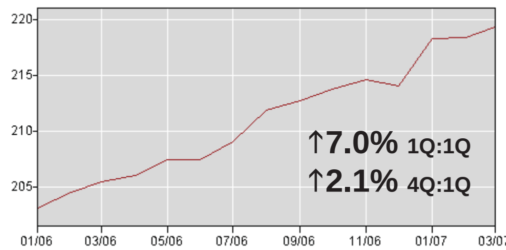
Material Handling Equip. (Ind)



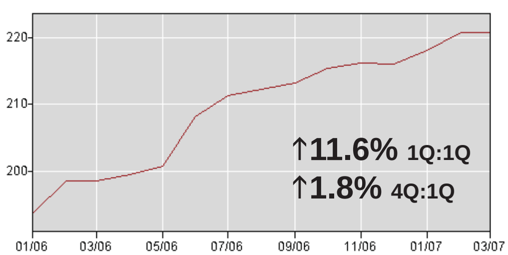
Industrial Gases



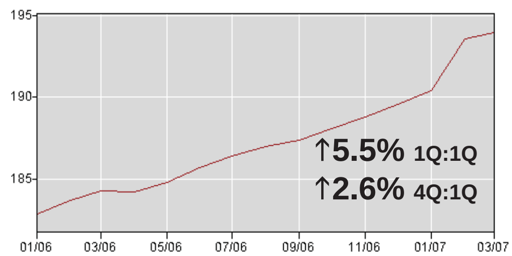
Welding Machinery/Equipment



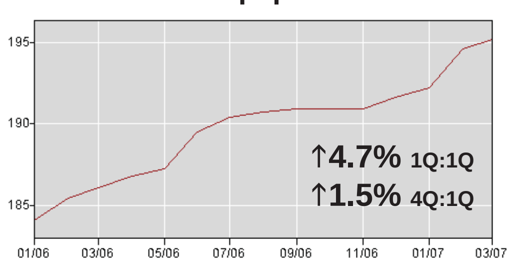
Valves, Except Fluid Power



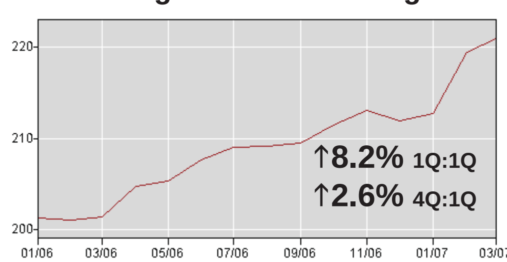
Pumps, Compressors & Equip.



Fluid Power Equipment



Plumbing Fixtures & Fittings



Source: Bureau of Labor Statistics; MDM analysis

13 Lawson Products Sales Agents Accused in Kickback Scheme

Thirteen sales agents for Lawson Products, Des Plaines, IL, have been indicted on federal fraud charges. The sales agents are accused of paying kickbacks totaling $140,000 to employees of some of their customers, including suburban municipalities, school districts, a federal agency, a non-profit organization and private businesses.

They disguised kickbacks as purchasing incentives, according to the Chicago U.S. Attorney's office. In return, the sales agents allegedly obtained higher sales commissions based on greater volume and prices.

Eleven of the defendants were charged in six separate cases in Chicago, while two additional cases were filed in Dayton, OH, and Philadelphia, PA. All of the cases involve commissioned sales agents for Lawson Products, Inc., or its subsidiary Drummond American Corp.

Lawson has about $400 million in annual sales of hardware, tools and chemicals. The charges follow the execution of federal search warrants in December 2005.

According to the indictments, the Lawson businesses – since as early as the 1990s – ran a program called "Winners Choice," in which Keogh Inc. would issue checks to individuals purchasing Lawson merchandise on behalf of their employers. The sales agents would order "Certificates of Award" for individuals designated by the sales agents.

The certificates, awarded in multiple $25 increments, entitled recipients to receive checks that could be used to purchase items at various retail stores. Keogh, Inc. would then issue the checks, oftentimes in $50 increments. Here are details:

Richard Vidor, 48, a former Lawson salesman, and Chicago Heights Fire Department mechanic Aniello Izzo, 39, were indicted on mail fraud. Izzo, who had authority to buy hardware, tools, chemicals and solvents, allegedly redeemed Winners Choice certificates for $3,840.

After the Winners Choice program ended, Vidor allegedly attempted to provide gift cards to Izzo in exchange for purchasing Lawson products, unaware that Izzo was cooperating with law enforcement at the time. Vidor also allegedly paid kickbacks ranging from $1,500 to $3,600 each to three additional employees who were not charged. Federal officials charge that the scheme enabled Vidor to obtain about $80,000 in sales commissions.

In another case, Peter Fonfara, 60, a former Drummond sales agent, and Greg Terry, 50, area director for Ada S. McKinley Community Services, were indicted together on mail fraud. Terry allegedly redeemed Winners Choice certificates for $28,000. Fonfara also is alleged to have paid kickbacks totaling $1,900 and $1,200 to two employees of the City of Blue Island, a Chicago suburb, who purchased chemical solutions from Drummond. Federal officials accuse Fonfara of fraudulently obtaining $150,000 in sales commissions.

Another former Drummond sales agent, Gary Goldman, 60, was indicted on one count of mail fraud and two counts of bribery. He is accused of providing Winners Choice certificates to a General Services Administration employee responsible for buying supplies to be used in a federal courthouse, and James Kramer, a GSA supervisor. Federal officials accuse Goldman of agreeing to pay Kramer $5,000 cash if he purchased $60,000 worth of paint from Drummond on behalf of GSA.

Scott Osika, 51, a former Drummond sales agent, Charles Schertzing, 50, director of maintenance for Skokie School District 72, and Joseph Bettuzzi, 40, director of maintenance for Skokie School District 71, were indicted on mail fraud. Federal officials allege Osika fraudulently obtained commissions of $60,177 from selling products to the two school districts. Osika allegedly provided kickbacks of $2,200 and $1,575, to Schertzing and Bettuzzi.

Xochitl Baker, 47, a Drummond sales agent responsible for Los Angeles and Long Beach markets, and Patrick McGowan, 48, building services supervisor for the City of Long Beach, were indicted on mail fraud for an alleged scheme that made McGowan nearly $11,000, federal officials said.

In the final case, Ron Gholdson, 46, a supervisor responsible for purchasing cleaning products for Indianapolis-based Reilly Industries, was indicted on mail fraud for allegedly obtaining $80,000 in redeemed certificates. The indictment alleges that the sales agent paid an additional $8,000 in kickbacks to a subordinate of Gholdson and that the sales agent fraudulently obtained about $350,000 in commissions.

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Industrial & Construction Markets Update

PERSPECTIVE

Channel dynamics, as our lead article explores, have arguably never been more complex or more fluid. One of the core concepts as this article came together was the need to have a clear line of visibility from manufacturer to end-user customer. With so many variables at play, visibility seems to be one of the few constants.

Channel conflict appears when clarity disappears, whether in communication, policies, discount structures or behaviors. There is no right answer, yet there are great examples of consistent and clear approaches that are working.

Ten years ago, the hot issue was how integrated supply was radically altering traditional channel relationships. Power was shifting to the customer. The redundancies and inefficiencies of traditional channels were ripe for supply solutions with more visibility up and down the channel. Problems erupted when customers wanted to remove cost but retain the value of services and knowledge distributors had long provided as part of the product cost.

The flatter world today has taken that giant steps further. Distributors have a great opportunity to create better visibility for customers and suppliers in real time. What's the value when a manufacturer can see clearly and quickly the shifts in end-user purchasing behavior and segment consumption patterns? What's the value when a customer can quickly access account, inventory and product information at the distributor or even up to the manufacturer? What's the value when a distributor is regarded as an expert on inventory management, best sourcing options and solutions versus one of several price competitors?

Distributors have to define their value much more clearly today, because customers can buy nearly every product and service a la carte, not just as part of a bundled package.

Paris-based electrical distributor **Rexel Inc.** reported sales of 2.576 million euro (US$3.509 billion) in the first quarter 2007, up 31 percent from the same period last year. Growth was 5.9 percent on a comparable basis. Rexel saw double-digit organic growth in Europe and Asia-Pacific, with flat sales in North America. Acquisitions added 545 million euro (US$742 million) in sales in 2006.

Grainger, Chicago, IL, reported sales of $1.5 billion in the first quarter, up 9 percent from the first quarter 2006. Profit increased 18 percent to $102 million. Daily sales increased 8 percent in January, 10 percent in February and 9 percent in March. Sales in the branch-based segment in the U.S., Mexico and China increased 10 percent in the first quarter. Daily sales grew by 9 percent in January, 11 percent in February and 11 percent in March. Sales in the U.S. were up 10 percent. The strongest sales growth in the U.S. came from government customers followed by commercial markets.

Motion Industries, Birmingham, AL, has acquired **Jonesboro Bearing & Supply**, Jonesboro, AR. Jonesboro Bearing has two locations: Jonesboro, AR, and Stuttgart, AR. Jonesboro is a distributor of bearings, power transmission, industrial supplies and fasteners. Motion Industries, a division of Genuine Parts Co. with 2006 sales of $3.1 billion, is an industrial parts distributor with more than 500 locations.

U.S. housing starts were generally flat in March from the month before, but 23 percent below the March 2006 rate. Year-to-date, housing starts were down 24.2 percent in the Northeast, 38 percent in the Midwest, 38.3 percent in the South and 30.7 percent in the West. Permits, year-to-date, were down 21.1 percent in the Northeast, 32.8 percent in the Midwest, 28 percent in the South, and 24.8 percent in the West.

WESCO International Inc., Pittsburgh, PA, distributor of electrical MRO products and construction materials, reported sales of $1.45 billion in the first quarter 2007, up 15 percent from the same period a year ago. Sales from the acquisition of Communications Supply Corp., purchased in the fourth quarter 2006, were about $160 million. Core electrical sales rose 2 percent, while sales at CSC added 13 percent to consolidated sales revenue.

Anixter International Inc., Glenview, IL, distributor of communication products, electrical and electronic wire & cable and a distributor of fasteners and other small parts, reported sales of $1.33 billion in the first quarter 2007, up 24 percent from the same period last year. Profit was up 71 percent to $53.6 million. Sales in the first quarter grew at a year-over-year organic rate of 19 percent.

Pentair, Inc., Golden Valley, MN, sales increased 5 percent in the first quarter 2007 to $808 million from the first quarter of 2006. Profit was flat from the same period a year ago. Pentair reported challenges due to slow-

continued on next page

ing North American residential housing starts and headwinds in the electronic markets, as well as consolidation in the telecommunication industry.

Illinois Tool Works Inc., Glenview, IL, reported sales increased 14 percent in the first quarter 2007, and profit went up 10 percent. Revenue was $3.76 billion. The increase came from strong results in international end markets tempered by slowing growth in a number of North American end markets. Total company base revenues grew 1 percent, with international base revenues increasing 8.9 percent and North American revenues declining 3.5 percent. Acquisitions added 10.7 percent to first-quarter revenues.

SKF Group reported sales of SEK 14,371 million (US$2.131 billion) in the first quarter 2007, up 8 percent. Profit was up by 5 percent. SKF reported that sales were significantly higher in Europe and Asia. Sales in North America were relatively unchanged and sales in Latin America were higher.

The **Fastenal Company**, Winona, MN, sales of $489,157 for the first quarter ended March 31, 2007, an increase of 13.3 percent over the same period last year. Profit increased 12.9 percent. During the first three months of 2007, Fastenal opened 73 new sites, as it did in the first quarter 2006. There were 2,000 sites as of Dec. 31, 2006.

February U.S. manufacturing technology consumption totaled $268.37 million, according to the Association for Manufacturing Technology and the American Machine Tool Distributors' Association. This total, as reported by companies participating in the USMTC program, was down 9.7 percent from January, and down 6.3 percent from the total of $286.29 million reported for February 2006. With a year-to-date total of $565.54 million, 2007 was up 9.4 percent compared with 2006.

Huttig Building Products, Inc., St. Louis, MO, a domestic distributor of millwork, building materials and wood products, reported sales for the first quarter 2007 were $222.4 million, down 21 percent from $281.1 million in 2006. Sales to national accounts for Huttig, which represented 36 percent of sales in the first quarter 2007, as compared with 34 percent last year, declined by 16 percent. Huttig reports there is no indication that the new housing construction market is likely to pick up this year, but reports it believes the market has stabilized.

Saint-Gobain's Building Distribution Sector has acquired three distributors in Europe: **Vemac** (Italy), **Discesur** (Spain) and **Schäfer** (Germany). Vemac is one of the country's largest builders' merchants based in Abruzzo. The business has

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Calculation of MDM Inflation Index for March 2007

		BLS Price Indices Mar. '07	BLS Price Indices Feb. '07	BLS Price Indices Mar. '06	% Sales Weight	Weighted Indices Mar. '07 (1)X(4)	% Change Mar. '07 Feb. '07	% Change Mar. '07 Mar. '06
1136	Abr. Prod.	458.9	462.5	454.2	19.1	87.66	-0.77	1.05
1135	Cutting Tools	436.5	434.6	430.8	18.9	82.51	0.44	1.32
1145	Power Trans.	634.8	633.6	608.3	15.4	97.76	0.20	4.37
1081	Fasteners	437.2	437.5	420.2	9.0	39.35	-0.06	4.05
1149.01	Valves, etc.	767.0	764.9	715.6	7.6	58.29	0.27	7.19
1132	Power Tools	329.0	329.7	327.5	6.5	21.39	-0.20	0.47
1144	Mat. Handling	460.1	458.7	441.5	6.2	28.53	0.31	4.22
0713.03	Belting	540.1	533.7	538.8	6.1	32.95	1.21	0.24
1042	Hand Tools	676.3	677.0	660.9	8.1	54.78	-0.10	2.32
108	Misc. Metal	415.0	415.3	402.9	3.1	12.87	-0.07	3.01
"New" March Index		269.6	March Inflation Index			516.08	0.07	2.88
"New" February Index		269.4	February Inflation Index			515.70		
			March 2006 Inflation Index 501.61					

New index reflects 1977=100 base other #: 1967 To convert multiply by .52247

Distribution Financial Metrics and Trading Multiples

(Data as of March 31, 2007)

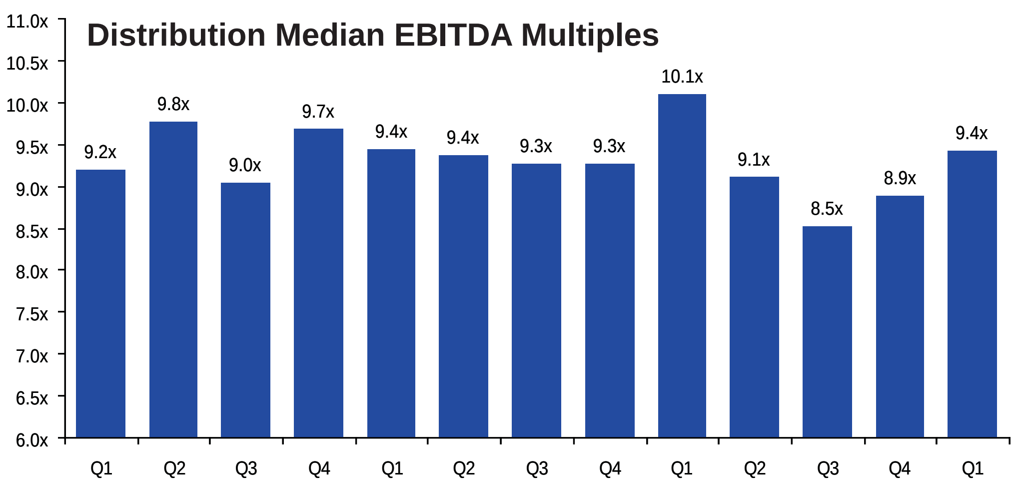
($ in millions)

Company	Ticker	Enterprise Value	LTM Sales	LTM Sales Growth	LTM Gross Margin	LTM EBITDA	LTM EBITDA Margin	EV to LTM Sales	EV to LTM EBITDA	ROIC	Working Capital/Sales
Airgas Inc. *	ARG	$4,286	$3,098	13.6%	50.9%	$477	15.4%	1.4 x	9.0 x	10.3%	6.4%
AM Castle & Co.	CAS	728	1,178	22.8%	18.3%	110	9.3%	0.6	6.6	13.9%	18.4%
Anixter International Inc. *	AXE	3,173	4,939	28.4%	24.3%	372	7.5%	0.6	8.5	14.0%	25.5%
Applied Industrial Technologies Inc.	AIT	1,069	1,966	9.3%	27.2%	141	7.2%	0.5	7.6	19.3%	15.7%
Barnes Group Inc. *	B	1,602	1,260	14.3%	36.7%	169	13.4%	1.3	9.5	11.0%	14.4%
Beacon Roofing Supply Inc. *	BECN	1,035	1,541	55.4%	24.2%	125	8.1%	0.7	8.3	9.8%	14.5%
BlueLinx Holdings Inc.	BXC	881	4,899	(12.9%)	9.8%	98	2.0%	0.2	9.0	6.3%	11.3%
Builders FirstSource, Inc. *	BLDR	794	2,239	(4.2%)	26.2%	173	7.7%	0.4	4.6	19.4%	9.1%
Building Materials Holding Corp.	BLG	814	3,245	11.4%	22.4%	252	7.8%	0.3	3.2	16.1%	5.3%
Bunzl plc	BNZL	5,780	6,550	14.0%	22.7%	479	7.3%	0.9	12.1	15.4%	6.7%
DXP Enterprises Inc.	DXPE	231	280	51.0%	28.1%	22	8.0%	0.8	10.3	17.9%	14.2%
Fastenal Co. *	FAST	5,270	1,809	18.8%	50.2%	354	19.6%	2.9	14.9	22.3%	35.0%
Genuine Parts Co.	GPC	8,791	10,458	6.9%	31.3%	870	8.3%	0.8	10.1	16.8%	23.9%
Hagemeyer NV	HGM	3,142	8,305	11.3%	23.3%	334	4.0%	0.4	9.4	9.6%	11.4%
Houston Wire & Cable Company *	HWCC	598	323	N/A	28.5%	53	16.5%	1.8	11.2	34.3%	27.3%
Huttig Building Products Inc.	HBP	164	1,103	0.5%	18.8%	19	1.7%	0.1	8.9	5.1%	8.7%
Industrial Distribution Group Inc.	IDGR	144	548	1.7%	22.1%	14	2.6%	0.3	10.2	7.6%	17.0%
Interline Brands Inc. *	IBI	1,123	1,068	25.3%	38.3%	120	11.2%	1.1	9.4	8.8%	25.6%
Kaman Corp.	KAMN	625	1,206	9.5%	27.5%	72	6.0%	0.5	8.7	10.5%	22.3%
Lawson Products Inc.	LAWS	319	518	15.1%	58.9%	32	6.1%	0.6	10.1	8.6%	18.8%
MSC Industrial Direct Co. Inc. *	MSM	3,272	1,522	30.4%	46.4%	292	19.2%	2.1	11.2	19.0%	27.6%
Park-Ohio Holdings Corp.	PKOH	564	1,056	13.2%	14.0%	77	7.3%	0.5	7.3	10.2%	23.7%
Pool Corp *	POOL	2,050	1,910	23.0%	28.3%	189	9.9%	1.1	10.8	20.6%	15.2%
Reliance Steel & Aluminum Co.	RS	4,726	5,743	70.6%	26.3%	696	12.1%	0.8	6.8	14.0%	19.0%
Ryerson Inc.	RYI	2,200	5,909	2.2%	14.5%	215	3.6%	0.4	10.3	6.1%	24.5%
Smith International Inc.	SII	11,542	7,334	31.4%	32.0%	1,230	16.8%	1.6	9.4	24.5%	28.6%
Watsco Inc. *	WSO	1,428	1,801	7.0%	25.7%	147	8.1%	0.8	9.7	16.8%	18.7%
WESCO International Inc. *	WCC	4,162	5,321	20.3%	20.4%	405	7.6%	0.8	10.3	13.9%	15.3%
Wolseley plc	WOS	21,672	30,052	20.8%	27.8%	2,073	6.9%	0.7	10.5	8.8%	16.6%
WW Grainger Inc. *	GWW	6,150	5,884	6.5%	40.0%	733	12.5%	1.0	8.4	21.4%	13.6%
Median		$1,515	$1,938	14.0%	26.8%	$181	7.9%	0.8 x	9.4 x	13.9%	16.8%

** = Companies covered by Baird Research*

The table above highlights key financial metrics and trading multiples for 30 publicly traded distributors in the industrial and building products industries.

The table below illustrates historical median EBITDA multiples for the above companies calculated using LTM EBITDA as of the quarter shown and the enterprise value as of the last day of the quarter. Please see Definitions at bottom of page.



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Definitions. LTM means latest twelve months. Enterprise Value ("EV") means market capitalization of a company's equity plus preferred stock plus total interest bearing debt (including capitalized leases) net of any cash or cash equivalents. EBITDA means earnings before interest, taxes, depreciation and amortization. In certain cases earnings have been adjusted for certain disclosed income or expense items considered to be non-recurring in nature. ROIC means return on invested capital and is defined as tax-effected EBIT divided by the sum of the book value of equity plus net debt. Working Capital is calculated as current assets, less cash, minus current liabilities excluding short-term borrowings and current portion of long-term debt.

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10 branches, employs 187 people and recorded net sales of €66 million in 2006. Following the opening of a second La Plateforme du Bâtiment store at the beginning of 2007 in Milan, Saint-Gobain Building Distribution reinforces its presence in the Italian market.

Anchorage, AK-based **Spenard Builders Supply**, a division of **Pro-Build Holdings**, Denver, CO, has acquired **Polar Supply Co.,** which operates in Anchorage, Fairbanks and Kenai, according to the Home Channel News. Polar Supply specializes in products required to build and maintain roads, bridges and pipelines and adds to Spenard's commercial product offerings. Polar Supply's three facilities will each operate as a separate division within Spenard, focusing on major commercial contractors, pipeline and oil companies.

February 2007 sales of merchant wholesalers were $340.8 billion, up 1.2 percent from the revised January level and were up 7.1 percent from the February 2006 level. The January preliminary estimate was revised downward $0.5 billion or 0.1 percent. February sales of durable goods were down 0.8 percent from last month, but were up 4.4 percent from a year ago.

The **Producer Price Index for Finished Goods** increased 1.0 percent in March, seasonally adjusted, the Bureau of Labor Statistics of the U.S. Department of Labor reported. This advance followed a 1.3 percent rise in February and a 0.6 percent decrease in January. The index for finished goods excluding foods and energy, or core inflation, was unchanged in March after moving up 0.4 percent in February. At the earlier stages of processing, prices received by producers of intermediate goods increased 1.0 percent in March following a 1.1 percent advance a month earlier, and the crude goods index rose 3.2 percent after climbing 8.9 percent in February.

Brady Corporation, Milwaukee, WI, acquired **Sorbent Products Co.,** Inc., Somerset, NJ. Sorbent Products is a manufacturer of synthetic sorbent materials used in a variety of industrial maintenance and environmental applications for spill clean-up, containment and control.

Kennametal Inc., Latrobe, PA, reported sales in the third quarter 2007 increased 7 percent on an organic basis to $616 million. Sales in the first nine months of fiscal 2007 were up 6 percent on an organic basis to $1.7 billion.

Diversified industrial manufacturer **Eaton Corporation**, Cleveland, OH, reported an increase in sales of 5 percent in the first quarter 2007 to $3.2 billion. Profit was $234 million, up 15 percent. Sales growth in the first quarter included 1 percent from organic growth, 2 percent from acquisitions, and 2 percent from higher foreign exchange rates. End markets declined slightly more than 1 percent in the quarter, driven by the decline in the NAFTA heavy-duty truck market.

Sandvik, Stockholm, Sweden, has agreed to buy **Extec Screens and Crushers Ltd**., Birmingham, UK. Sandvik has also agreed to buy **Fintec Crushing and Screening Ltd**., Belfast, UK. Extec and Fintec, respectively, are manufacturers of mobile crushing and screening equipment, including consumables and services to the international construction industry. Extec had sales of 1800 MSEK (US$266.4 million) in 2006. Fintec had sales of 560 MSEK (US$82.9 million) in 2006.

Becker Electric Supply, Dayton, OH, has purchased **Eastgate Electric Supply Inc.,** Richmond, IN. The acquisition adds three new offices and 25 employees, the Dayton Business Journal reported. Becker now has 12 branches in Ohio, Indiana, Kentucky and Georgia.

Air Liquide, Paris, France, has acquired the engineering firm **Lurgi**, which is owned by **Global Engineering Alliance**, based on an equity value of 550 million euros, equivalent to an enterprise value of 200 million euros. The acquisition accelerates the growth of the **Large Industries World Business Line**, strengthening Air Liquide's position in hydrogen markets and providing access to Coal to Liquid and Coal to Chemicals sectors.

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